

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

PA-04 PRS-01 USIA-15 CIAE-00 COME-00 FRB-02 INR-10

NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 AGR-20 DRC-01

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R 011200Z DEC 73

FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC 3025

INFO AMEMBASSY SAN SALVADOR

LIMITED OFFICIAL USE SECTION 1 OF 2 MANAGUA 4694

SAN SALVADOR FOR AGATT

E. O. 11652: N/A

TAGS: ETRD, EAGR, NU

SUBJECT: SUGAR: NICARAGUAN SUGAR INDUSTRY

1. SUMMARY: SUGAR IS IMPORTANT TO NICARAGUA EMPLOYING BETTER THAN 30,000 PEOPLE AND HAVING AN ANNUAL PAYROLL OF AN ESTIMATED US\$ 21,500,000. THE CENTRAL BANK ESTIMATE PLACES SUGAR'S SHARE OF AGRI-CULTURE'S CONTRIBUTION TO GNP AT 5.8 PERCENT. ALL MILLS ARE IN PRIVATE HANDS AND NO DIRECT GOVERNMENT ASSISTANCE IS INVOLVED. IN THE PAST FOUR YEARS THE INDUSTRY HAS EXPANDED SUFFICIENTLY TO MEET DOMESTIC DEMAND AND THE U.S. QUOTA AS WELL LEAVE A SIZEABLE SUM FOR EXPORT TO THE WORLD MARKET. WE FEEL THAT BY 1975, NICARAGUA COULD EASILY SUPPLY THE U.S. WITH 50 PERCENT MORE SUGAR THAN IS NOW BEING ALLOCATED TO THE COUNTRY.

2. FOLLOWING ARE EMBASSY RESPONSES TO THE QUESTIONS RAISED IN REFAIR, CODED TO THE QUESTION NUMBERS:

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3A) BY THE CENTRAL BANK'S CALCULATIONS, SUGAR CANE PRODUCTION

ACCOUNTED FOR 5.8 PERCENT OF THE AGRICULTURAL AND LIVESTOCK CONTRIBUTION TO GNP IN 1971. CANE AREA AS RELATED TO LAND UNDER CULTIVATION IN MAJOR CROPS IN 1973 WAS ALMOST 5.4 PERCENT. TOTAL ACREAGE UNDER CULTIVATION IN ALL CROPS IS NOT AVAILABLE, THEREFORE IT IS IMPOSSIBLE TO GIVE CANE AREA AS A PROPORTION OF TOTAL CULTIVATED AREA.

3B) ALL CROPLAND AND PROCESSING FACILITIES ARE PRIVATELY OWNED. NO BREAKDOWN IS AVAILABLE AS TO PERCENTAGE OF CANE PURCHASED FROM INDEPENDENT GROWERS, BUT IT PROBABLY DOES NOT EXCEED 40 PERCENT OF THAT CRUSHED ANNUALLY.

IT IS BELIEVED THAT ABOUT 7 PERCENT OF THE STOCK OF NICARAGUA SUGAR ESTATES (THE SAN ANTONIO MILL) IS IN THE HANDS OF U.S. CITIZENS. THE REMAINDER OF THE SHARES IN THAT MILL AND ALL OF THE OWNERSHIP OF THE OTHER FIVE MILLS IS NICARAGUAN.

C) THE PROCESSING FACILITIES ARE MODERN DUE TO AN ONGOING POLICY OF REPLACEMENT AND IMPROVEMENT OF MACHINERY AND FACILITIES. NO DATA ON THE VALUE OF NEW INVESTMENT IS AVAILABLE OVER THE PAST FOUR YEARS, BUT WE DO KNOW THAT THE FOLLOWING CHANGES HAVE BEEN MADE:

NICARAGUA SUGAR ESTATES (SAN ANTONIO) - ABOUT 3,500 ACRES OF NEW CANE WAS PLANTED; A NEW DIFFUSER (7,500) DAILY CAPACITY) WAS INSTALLED; NEW TURBO-GENERATORS AND CENTRIFUGALS INSTALLED; GENERAL NEW INVESTMENT IN PLANT AND WAREHOUSES; AND THE PURCHASE OF MECHANICAL CANE CUTTER-PICKERS.

MONTE ROSE - ABOUT 1,700 NEW ACRES HAVE BEEN PLANTED TO CANE AND ABOUT \$200,000 INVESTED IN THE MILL AND IN WAREHOUSING.

CENTRO DE INGENIOS E ANEXOS (SOMOZA INTERESTS INCLUDING MONTELIMAR, DOLORES AND IPEGSA) - ABOUT \$450,000 FOR NEW CENTRIFUGALS, A NEW CRUSHER, WAREHOUSING, MACHINE SHOP, AND A NEW COOKER FOR THE DISTILLERY.

FROM THE SUGAR YEAR 1968/69 TO 1973/74 CANE AREA INCREASED FROM 20,574 HECTARES TO 23,550 HECTARES AND DAILY CRUSHING CAPACITY INCREASED ABOUT 4,000 ST.

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3D) THREE OF THE MILLS ARE OWNED BY SOMOZA FAMILY INTERESTS AND THREE ARE OWNED BY MEMBERS OF THE OPPOSITION PARTY. AN ESTIMATED 60 PERCENT OF THE SUGAR LAND AND MILLING CAPACITY BELONG TO THE LATTER GROUP. ALL THREE OPPOSITION OWNERS (THE LACAYO MONTEALEGRE BROTHERS OF MONTE ROSA; ALFREDO PELLAS OF SAN ANTONIO; AND ADOLF BENARD OF AMALIA) ARE ECONOMICALLY SIGNIFICANT, BUT THE ECONOMIC AND POLITICAL IMPORTANCE OF THE SOMOZA FAMILY

OVERSHADOWS THEM. GENERAL ANASTASIO SOMOZA D. IS EXPECTED TO BE ELECTED TO HIS SECOND TERM AS PRESIDENT OF NICARAGUA IN 1974.

E) PRIVATE INTERESTS DIRECT THE COUNTRY'S EXPORT MARKETING OF SUGAR.

F) WE ESTIMATE THAT THE MILLS EMPLOY NO LESS THAN 26,000 PEOPLE IN INDUSTRIAL AND AGRICULTURAL LABOR DURING THE HARVEST AND THAT PERHAPS ANOTHER 5,000 WORK AS INDEPENDENTS. DURING THE OFF-SEASON ABOUT 9,000 ARE EMPLOYED, ABOUT 1,600 OF THEM IN PLANT AND OFFICE JOBS. EMPLOYMENT IS BELIEVED TO HAVE INCREASED 20 PERCENT OVER THE PAST FOUR YEARS.

SHORTAGE OF LABOR HAS NOT BEEN A PARTICULAR PROBLEM FOR THE INDUSTRY. THE SAN ANTONIO MILL HAS BEEN USING A MECHANICAL CUTTER-PICKER FOR A COUPLE OF YEARS (MONTELIMAR HAS JUST STARTED) AND IS EXPECTED TO INCREASE THE MECHANIZATION OF THE CANE HARVEST. ONE POSSIBLE SOLUTION IF LABOR DOES BECOME A PROBLEM AS A RESULT OF THE REBUILDING OF MANAGUA DRAWING WORKERS OUT OF THE CANE FIELDS. THE WORK OF CUTTING CANE IS DIFFICULT AND BACKBREAKING, BUT IN GENERAL IS NOT CONSIDERED TO BE DemeANING, NOR IS THE LABOR CONSIDERED TO BE EXPLOITED.

(THE MINIMUM WAGE WAS JUST RAISED TO 10.80 CORDOBAS (US\$1.54 PER DAY). THE GON CONSIDERS THE SUGAR INDUSTRY TO BE A GOOD SOURCE OF EMPLOYMENT AND VIEWS THE INDUSTRY'S EFFORTS TO HOUSE AND PROVIDE MEDICAL ASSISTANCE TO SUGAR WORKERS AS A VALUABLE SUPPLEMENT TO ITS OWN EFFORTS ALONG THESE LINES.

G) NO SUCH ASSISTANCE HAS BEEN IN EVIDENCE NOR IS IT ANTICIPATED.

H) CLIMATIC CONDITIONS HAVE BEEN THE PRIMARY CAUSE OF THE LIMITED OFFICIAL USE

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SWINGS IN SUGAR PRODUCTION IN RECENT YEARS. THE DEVELOPMENT OF THE IPEGSA OPERATION ON THE COUNTRY'S ATLANTIC SIDE (CURRENTLY CONSIDERED MORE OR LESS AN EXPERIMENT) COULD PROVIDE SOME INSURANCE AGAINST THE VAGARIES OF THE WEATHER ON THE PACIFIC SIDE. PLANT DISEASES ARE OF ONLY MINOR IMPORTANCE.

AVERAGE YIELD OF RAW SUGAR PER SHORT TON OF CANE AND AVERAGE CANE PRODUCTION PER ACRE FOR THE PAST THREE CROP-YEARS WERE:

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ACTION ARA-20

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

PA-04 PRS-01 USIA-15 CIAE-00 COME-00 FRB-02 INR-10

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R 011200Z DEC 73

FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC 3026

INFO AMEMBASSY SAN SALVADOR

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YEAR	RAW SUGAR YIELD	CANE YIELD
	(POUNDS)	(ST/HA)
1970/71	189	32.2
1971/72	200	31.4
1972/73	192	29.1

4. PRICES, COSTS, AND GOVERNMENT FINANCIAL INTEREST

A) THE GON DOES NOT PROVIDE A SUPPORT PRICE, NOR DOES IT OFFER ANY PARTICULAR INCENTIVES TO THE SUGAR INDUSTRY, EXCEPT THAT NEW OR ADDITIONAL INVESTMENT IN REFINING CAPACITY IS ACCORDED THE SAME TARIFF CONCESSIONS AND FISCAL INCENTIVES AS IS OTHER INDUSTRIAL INVESTMENT UNDER THE CENTRAL AMERICAN CONVENTION ON FISCAL INCENTIVES (SEE D BELOW).

B) FOR MORE THAN 25 YEARS THE MAXIMUM PRICES FOR SUGAR FOR DOMESTIC COMSUMPTION WERE FIXED BY THE GON AT 61 CORDOBAS (US\$8.71) PER QUINTAL FOR SULFATED (PLANTATION WHITE) AND 70 CORDOBAS (US\$10.00) FOR REFINED. HOWEVER, ON NOVEMBER 10, 1973, THE INDUSTRY WAS ALLOWED A 10 CORDOBA LIMITED OFFICIAL USE

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PER QUINTAL INCOME FOR EACH TYPE, MAKING THE CURRENT PRICES 71 CORDOBAS (US\$10.14) FOR SULFATED AND 80 CORDOBAS (US\$11.43) FOR REFINED. THIS IMPOSED PRICE CEILING DOES NOT APPEAR TO HAVE ADVERSELY AFFECTED PRODUCTION.

C) WE ESTIMATE THE FOB COST FOR RAW SUGAR AT CORINTO AT 48.40 CORDOBAS (US\$6.91) PER QUINTAL, INCLUDING THE 10 PERCENT EXPORT TAX IMPOSED AFTER LAST DECEMBER'S EARTHQUAKE. THE AVERAGE FOR SAN ANTONIO MAY BE SLIGHTLY BELOW THIS BECAUSE OF THEIR VOLUME OF PRODUCTION.

D) THE PRIVATE SUGAR PRODUCERS HAVE NO PLANS FOR EXPANSION FACILITIES IN THE NEAR FUTURE AS THEY ALREADY HAVE CAPACITY TO INCREASE PRODUCTION TO 50 PERCENT ABOVE CURRENT LEVELS; THE GON THROUGH ITS DEVELOPMENT AGENCY INFONAC OFFERS CAPITAL FOR DIVERSIFICATION OF AGRICULTURE. THE GON EXEMPTS MACHINERY FOR THE MILLS FROM DUTY AND WILL PROVIDE A FIVE TO EIGHT YEAR TAX HOLIDAY FOR THE SETABLISHMENT OF A NEW REPEAT NEW MILL. IF APPROVAL OF THE GON IS OBTAINED, A PORTION OF THE EARNINGS REINVESTED IN PLANT CAN BE EXEMPTED FROM INCOME TAX.

E) THE SUGAR INDUSTRY IS TAXED 10 PERCENT ON THE GROSS VALUE OF SUGAR SOLD LOCALLY AND THAT BEING EXPORTED SINCE JANUARY 1973 ALSO CARRIES A 10 PERCENT TAX; THE MUNICAPALITIES WHERE THE CANE IS PROCESSED ASSESS A LOCAL TAX; THE NATIONAL DISTRICT EXACTS A TAX ON SUGAR SOLD THERE; AND THERE IS A 1 PERCENT CAPITAL TAX (SUGAR SOLD TO GOVERNMENT AGENCIES IS EXEMPT FROM LOCAL TAXES). THE CENTRAL BANK ESTIMATES THAT THESE TAXES WILL BRING THE FEDERAL AND LOCAL GOVERNMENTS 18,500.00 CORDOBAS IN 1973. NO PORTION OF THIS IS EARMARKED FOR RETURN TO THE SUGAR INDUSTRY.

F) THE CENTRAL BANK ESTIMATES THAT WAGES PAID BY THE SUGAR INDUSTRY IN 1972/73 WERE 150,000,00 CORDOBAS (US\$21,500,00) AS NOTED ABOVE THE GON AND LOCAL GOVERNMENTS GET AN ESTIMATED 18.5 MILLION CORDOBAS DIRECTLY FROM THE INDUSTRY BEFORE THE MULTIPLIER EFFECT IS CONSIDERED. WE HAVE NO GOOD ESTIMATE OF HOW CAPITAL FARES, BUT BELIEVE THE INDUSTRY TO BE SUFFICIENTLY PROFITABLE TO INDUCE NEW INVESTMENT OVER THE PAST FEW YEARS.

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Message Attributes

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